

Buyer's Price Program (Mechir Lamishtaken) Evaluation Study

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Abstract

Background

The past fifteen years have been characterized by steep increases in housing prices and a decline in the affordability of housing in Israel. Given this situation, the need for affordable housing is now prominent in the public discourse. Efforts to achieve this goal are reflected in a set of policy instruments designed to provide suitable housing solutions, while maintaining the financial independence of the purchasers or tenants. The Buyer's Price Program (BPP – *Mechir Lamishtaken* in Hebrew) is intended to substantially increase the supply of affordable housing and enable non-homeowners to purchase an apartment in a variety of housing projects around the country for an amount below the free market price. The Myers-JDC-Brookdale Institute (MJB) submitted to the Ministry of Construction and Housing (MCH) several proposals to examine the BPP from different angles. In agreement with the Ministry, it was decided to focus on two perspectives: those of the eligible purchasers and those of the real estate developers.

Study Goals

The study of eligible purchasers was designed to examine the following:

1. The sociodemographic characteristics of eligible participants
2. The satisfaction of the participants (the “eligibles”) with selected aspects of the program
3. The purchasers' decision-making process (particularly if this was their first apartment)
4. The correlation between the eligibles' characteristics and their patterns of activity in the program, and their satisfaction with the program.

The interviews with the developers were designed to examine the following:

1. The characteristics of the developers' participation in the program
2. The considerations that govern their actions, their opinions about the program, and the degree of their satisfaction.

Study Method

The study of the eligibles was based on a self-report internet survey distributed to all holders of eligibility certificates (165,000 households). After cleansing the data, we obtained 23,608 questionnaires with sufficient information to conduct a statistical analysis. The study of the developers was based on 15 in-depth interviews with real estate developers with varying characteristics, some of whom participated in the program, while others did not.

Findings

Main Findings in the Study of the Eligibles

Characteristics of the eligibles: A high percentage of young people, couples with children, and tenants in rented accommodation, as well as people with a college education, people living in the center of Israel, and people in the second and third household income (gross) quintiles. We also found over-representation of the ultra-Orthodox and under-representation of Arabs in relation to each group's percentage in the total population of Israel. Most of the purchases in the program were made by eligibles in the first to third quintile (in the periphery, 75% of all purchasers are in those quintiles).

Characteristics of the eligibles who forfeited their lottery win: Eligibles in series B or C (those who had registered later), those with higher income, ultra-Orthodox and residents of the Jerusalem district were found more likely to withdraw from the program and purchase an apartment on the free market.

Search for an apartment triggered by the program: Almost half of all the eligibles began looking for a home because of the program. Their socioeconomic profile shows that they belong to disadvantaged social groups.

Conduct in the housing market: Eligibles who purchased an apartment through the program paid on average NIS 100,000 less than those who purchased on the free market, received less financial assistance from their families (in the amount and the rate), and invested less of their own capital – but a higher proportion of the value of the apartment. Subsequently, those who bought through the program took out mortgages at a higher rate.

Planning vs. actual purchase: In comparison to those who purchased through the program, a higher rate of eligibles who purchased on the free market bought smaller and/or more expensive apartments than they had planned to buy. Regarding the location of the apartment, most of those who purchased

through the program purchased in the district they wanted; just under half of them were able to buy in the locality they wanted.

Satisfaction: About two-thirds of all the eligibles who participated in the survey responded that they would recommend it to a friend meeting the program's eligibility criteria. However, there were some aspects of the program for which less than a third reported satisfaction.

Main Findings in the Developers Study

Characteristics of the developers: In the study, senior representatives of real estate companies with different characteristics were interviewed: new and old-established companies, those with a greater or lesser extent of work, companies working in different areas, privately owned and public companies, Jewish and Arab companies, development companies vs. developers and contractors.

Thematic analysis: Three main themes emerged from the interviews with the developers, indicating their ambivalent attitudes to the program:

1. The effect of state involvement in the project:
 - a. Some of the companies noted that the project is over-regulated, which reduces entrepreneurial freedom and reduces the project's ability to succeed, while others believe that the stiff regulation gives an advantage to the engineering and building professions and is therefore good for the project.
 - b. The bureaucracy and regulation lead to delays and make it more difficult to complete projects in a reasonable time.
 - c. Reducing the uncertainty about projects increases access to financing.
2. The effect of the structure of the program's tender:
 - a. Obviating the need for marketing campaigns, standardizing the specifications and structure of the apartments, industrial construction, and negative incentives to delay construction reduce the cost of construction for the developers.
 - b. The method of the tender affects the architectural product – i.e., the way in which the developers plan and execute the project, unlike the practice in the free market.
 - c. Inaccurate appraisal in the tenders for the land exposes the developers to risks and unjustifiably increases the cost of the apartments for some of the eligibles.

3. The effect of the public nature of the program and the informal association formed by the eligibles for decision-making purposes:
 - a. The eligibles' informal association and media exposure give the eligibles great power vis-à-vis other parties in the program.

Recommendations

The following are the main recommendations for the BPP, or for future programs, arising from the findings of these two parts of the study:

The Eligibles

- Hold the lotteries close to the time the building permits are issued to shorten the waiting time between winning and purchasing
- Improve the service of the inspection companies and maintain ongoing contact with the eligibles
- Provide apartments of varying sizes in the projects and increase the supply of four-room apartments
- Continue the combination of BPP apartments and those sold on the free market in housing projects (diversity of sales methods)
- Limit the amount of the discounts in areas where there is demand and increase the grants in the periphery
- Market attractive tenders in Arab localities in coordination with the local authorities
- Develop additional policy instruments with conditions suitable for the traditional Arab population.

The Developers

- Give the developers more latitude by differential pricing at the building level and the possibility of construction and occupation of the projects in stages
- Conduct surveys of the demand before the marketing of the land and state commitment to purchase apartments
- Improve coordination between the local authorities and other public authorities in order to shorten the waiting time for building permits to be issued
- Standardize appraisals for future tenders by comparing appraisals for actual deals with appraisals for tenders conducted previously in a random sample of occupied projects in a particular area.

Executive Summary

Background

The past fifteen years have been characterized by steep increases in housing prices in Israel, which have led to a decline in the home ownership rate and a higher rate of households living in rented accommodation. This is particularly evident among young households (30-40 years old). The purchase affordability index, which measures how easy it is to purchase an apartment, declined considerably from 2004-2012, particularly for young couples.

In light of the increased housing prices and the reduced ability to purchase apartments, the idea of ensuring affordable housing is now prominent in the public discourse. Affordable housing is achieved through policy instruments designed to provide suitable housing solutions, while maintaining the financial independence of the purchasers or tenants. These policy instruments are designed to reduce the percentage of the total household income spent on housing; expenditure of up to 30% of the household income on housing services is usually considered affordable. One of the main strategies to achieve affordable housing is through the construction of affordable new housing units, i.e., increasing the supply of affordable housing, be it public, private, or in partnership with the third sector. Such units can be designated for a certain group, such as young people or those with low incomes, or for a broader public.

The government of Israel is currently promoting an array of policy instruments designed to produce affordable housing, focusing on two main aspects: reducing the demand for housing by investors and increasing the supply of housing. In the past, particularly in the first three decades of the State of Israel, the state built most of the new housing and created a reserve of state-owned affordable housing. Since the 1970s, and particularly over the past two decades, the state has been promoting affordable housing, mainly by encouraging construction on the private market and subsidizing specific groups to achieve this end.

The Buyer's Price Program (BPP – *Mechir Lamishtaken* in Hebrew) is a scheme that enables non-homeowners to purchase an apartment in a variety of projects around the country at a lower price than on the free market. The program was launched in 1994 as a track for marketing land for housing at reduced prices. The principles of the program in its current format, as examined in this report, are based on government resolutions from the second half of 2015. In this format, the state issues tenders on land

zoned for construction, in which developers bid for the lowest price per square meter built, while the maximum price per square meter is fixed by the state. The state gives the developers a discount on the land and saves them costs by obviating the need for marketing and other means. By determining the final price per square meter, the state ensures that the discount on the land and other benefits through the tender will be passed on to the end consumers – those eligible to participate in the program. The eligibility criteria for participation are broad, so there are more eligibles than housing units available through the program. In order to allocate the end-product – an inexpensive apartment – the state conducts a lottery among the eligibles who have registered to purchase an apartment through the program. The eligibles are divided into eligibility series according to the date they signed up (series A, B or C) or according to their status (those wishing to upgrade their housing or young purchasers). In the early years of the program, eligibles in series A had priority over those in other series.

The Myers-JDC-Brookdale Institute (MJB) submitted to the Ministry of Construction and Housing (MCH) several proposals to examine the program from different angles. In agreement with the Ministry, it was decided to focus on two points of view: that of the eligible purchasers and that of the real estate developers.

Study Goals

This study is an evaluation of the BPP, but the outcomes are intended to provide the heads of the MCH with insights that can be applied to other housing programs, particularly affordable housing programs. The study consists of two parts – a study of the program eligibles and a study of the real estate developers.

The goal of the first part, focusing on those eligible for the BPP, was to examine four main factors:

1. The sociodemographic characteristics of those eligible to participate
2. The satisfaction of the participants (the “eligibles”) with certain aspects of the program
3. The purchasers’ decision-making process regarding the program (particularly if this was their first apartment) – preferences, opinions, and choices
4. The correlation between the eligibles’ sociodemographic characteristics and their patterns of activity in the program – preferences, opinions, and choices – and their satisfaction with it.

The goal of the second part, focusing on the real estate developers' attitude to the program, was to examine two key factors:

1. The characteristics of the developers' participation in the program
2. The considerations that govern their attitudes towards the program, the action taken through the program, and the degree of their satisfaction with it.

Study Method

A separate method was used for each of the two parts of the study, as described below:

The study of the eligibles was based on a self-report internet survey distributed to all holders of eligibility certificates (165,000 households). The survey was distributed by email and SMS text messages using an MCH system. The survey lasted three weeks, from June 24, 2019 through July 16, 2019. A week after the survey was sent, two reminders were sent, focusing on groups of eligibles that were under-represented in the sample. A total of 36,513 respondents participated in the survey and after cleansing the data, we obtained 23,608 questionnaires – 16,730 of them fully completed (71%) and 6,878 partially completed (29%).

The study of the developers was based on 15 in-depth interviews with real estate developers with differing characteristics. The interviews were conducted between May and November 2019. The developers were selected according to four characteristics: Extent of activity (in the program and elsewhere), area of work, type of ownership (private or public) and type of company (developer or developer as well as contractor). The developers were chosen from a pool of those who won BPP tenders, in discussions with the MCH, which commissioned the study, and according to the company rating in Dun's 100 (<https://www.duns100.co.il/en>).

Findings

Main Findings from the Eligibles Study

Characteristics of the eligibles: In the sample of eligibles, we found a high proportion of young people, couples with children, and tenants in rented accommodation. The sample also included a high percentage of people with a college education and residents of the center of the country (about half of all eligibles). The ultra-Orthodox were over-represented and Arabs under-represented in relation to

their percentage in the total population. The percentage of households whose gross monthly income was between NIS 7,001 and NIS 18,000 (quintiles 2 and 3) was higher than their percentage in the general population and the rate of households with a gross monthly income of below NIS 7,000 (quintile 1) or above NIS 28,000 (quintile 5) was lower than their percentage in the general population. Among the eligibles, the non-ultra-Orthodox Jews were the strongest group financially, the Arabs were weaker, and the ultra-Orthodox were the weakest.

Characteristics of the purchasers: Most of the purchases made through the program were by eligibles in quintiles 1-3 (in the periphery 75% of all the purchases were in these quintiles). However, as the purchasing stage of the program approached, the proportion of eligibles in quintiles 4 and 5 increased.

Forfeiting the lottery win: The main reasons for forfeiting the lottery win were the area of residence or the fact that the remaining apartments available for selection did not meet the eligibles' needs, or that the apartments were too expensive. Eligibles in series B or C (those who had registered later), those with high income, the ultra-Orthodox and residents of the Jerusalem district were more highly likely to withdraw from the program and purchase an apartment on the free market.

Search for an apartment triggered by the program: Almost half of all eligibles began looking for a home as a result of the program. Their socioeconomic profile shows that they belong to more disadvantaged social groups, mainly with regard to their education, income and age (non-homeowners over the age of 40). This fact could indicate that, as a result of the program, eligibles who did not believe they would be able to purchase an apartment prior to the program began looking for one. It could also show that at least in some cases, the program stimulated groups who could not previously purchase a home to start looking for one.

Considerations regarding the choice of apartment: Most of the eligibles noted location as the most important consideration when choosing their apartment (more important than the size and price). Furthermore, most of the eligibles reported that they preferred to live in the district where they currently resided and about half of them noted that they were interested in a four-room apartment. In comparison with those who purchased through the program, eligibles who purchased on the free market were found to be more sensitive to the location of the apartment than to its price, in other words, they were willing to forfeit the discount awarded through the program for the sake of what they considered a more attractive location.

Conduct in the housing market: Eligibles who purchased an apartment through the program paid on average NIS 100,000 less than those who purchased on the free market, received less financial assistance from their families (in the amount and the proportion), and invested less of their own capital – but a higher proportion of the value of the apartment. To make up the difference, those who bought through the program took out mortgages at a higher rate. As a rule, purchases through the program were in more peripheral areas, when compared to purchases of eligibles on the free market. Finally, high-income purchasers on average enjoyed greater discounts.

Planning vs. actual purchase: In comparison to those who purchased through the program, a higher rate of eligibles who purchased on the free market bought smaller and/or more expensive apartments than they had planned to buy. Among those who bought through the program, a larger proportion purchased apartments that were larger than planned.

With regard to the location of the apartment, most of those who purchased through the program were able to buy in the district they wanted; just under half of them were able to buy in the locality they wanted. Approximately half of all those who purchased through the program were living in the apartment that they had purchased, compared with 77% of those who bought on the free market. In this context, it is important to remember that, at the time that the survey was conducted, the building of most of the housing units sold through the program had not been completed, so this figure is preliminary and needs to be re-examined in the future.

The findings also reveal correlation between the program's lottery mechanism and apartments that were not bought as planned. Specifically, participants who were ranked highly in the lottery were more likely to buy according to plan. In contrast, those with a low ranking were more likely to buy a larger apartment than planned. This finding is also reflected in the price of apartments; those who were highly ranked in the lottery (first or second third) purchased apartments that were NIS 72,000 less expensive than lower-ranked eligibles.

Satisfaction: About two-thirds of all the eligibles who participated in the survey responded that they would recommend it to a friend who met the program's eligibility criteria. However, there were some aspects of the program for which less than a third reported satisfaction. The lowest level of satisfaction reported was with the inspection companies. The level of satisfaction increased as the purchasing process advanced, reaching 61% satisfaction among the purchasers. Those who tended to be more satisfied were eligibles whose characteristics were better suited to the program's conditions, i.e., purchasers, those

who received a large discount on the apartment, eligibles in series A, and those wishing to upgrade their housing. Lower rates of satisfaction were found among those who had been looking for an apartment before the program, and those in series B, those rated at the bottom of the lottery, those who had to wait a long time to choose their apartment, and those who participated in many lotteries.

Main Findings from the Developers Study

In the study of the developers, we examined the experience of the real estate developers in the BPP. We identified three main themes through which we could describe the developers' experience: The effect of state involvement in the project; the effect of the structure of the program tender; and the effect of the public nature of the program and the informal associations formed by the eligibles for the purpose of decision-making. The following are the main findings by each of these themes.

Theme 1: The effect of state involvement in the project:

Strict regulation and reduced entrepreneurial autonomy – good or bad depending on your competitive advantage: Some of the developers interviewed are in favor of the inclusion of apartments sold on the free market in the program's tenders; others are in favor of projects that only include apartments sold to eligible persons at a controlled price. (usually property developers). Those who think that professional and cheap construction gives them the competitive advantage in the construction market (usually property developers who are also contractors) are against integration, while those who see a competitive advantage in creating and marketing a unique product (i.e., an apartment) (usually property developers who are not contractors) support integration of the two kinds of apartments in BPP tenders. Notwithstanding, both sides agree that the inclusion of apartments from the free market in BPP tenders reduces the price per square meter for program eligibles.

Bureaucracy and regulation lead to additional delays: The program's characteristics contribute to a rapid pace of construction but the planning process leading up to construction takes longer than for non-BPP projects. The lengthy planning process stems mainly from the supervision of the inspection company and the fact that there is sometimes a conflict of interest between the MCH and the local authority when it comes to promoting projects in the program.

Access to financing: The program's characteristics increase the developers' ability to obtain financing for housing projects compared with the norm in the general market. The developers claim that banks and other financing sources show greater confidence in the feasibility of building and marketing apartments

through the program than in the free market, and therefore make it easier to get business funding. Characteristics such as a list of potential buyers, a discount on the price of the completed apartment compared with prices on the free market, and the fact that the state is a significant player in promoting the plans, all make it simpler to obtain financing for BPP projects. Nevertheless, they claim, the costs of financing are no different from those in non-BPP projects.

Theme 2: The effect of the structure of the tender:

Reduced construction costs: All the real estate developers agree that the program saves on construction costs. It does so through the discounts on the price of the land and by providing a range of benefits to the developers and eligibles, as well as by other means. Specifically it obviates the need for the marketing campaigns needed for sales on the free market, thereby saving costs of NIS 35,000-40,000, and reduces construction costs by speeding up construction through standardized specifications and apartment structure, and by establishing a rigid timetable with negative incentives for construction delays.

The effect of the tender on the product: The method of compensation in BPP tenders encourages the construction of apartments of a certain type, particularly buildings with large private areas and small, cheap public areas. In these tenders, there is no payment for public areas such as lobbies, stairwells, communal gardens, and parking lots. This method encourages the developers to increase the private areas – for which they receive payment – as much as possible, in particular those that are relatively cheap to build (balconies and gardens), and to reduce communal public areas and expensive structures (such as underground parking) as much as possible, as well as to reduce the number of buildings in the project, while increasing the number of stories in each of them.

The pricing of the tenders: Inaccurate appraisal in the tenders for the land exposes the developers to risks and unjustifiably increases the cost of the apartments for some of the eligibles.

Theme 3: The effect of the public nature of the program and the informal association formed by the eligibles for decision-making purposes:

The eligibles' informal association and media exposure: The eligibles of the program formed an informal association at an early stage in the program before they became home buyers. This association, combined with the extensive media exposure of the program, created a situation in which decisions about the program favor the eligibles over the developers. According to the developers, two key decisions of this kind concern changing the date of linkage to the construction input index and improving apartment specifications throughout the program.

Discussion and Conclusions

As evident from the characteristics of the eligibles and purchasers in BPP, the program has succeeded in recruiting the participants for whom the program is intended – young couples. Most of those eligible for the program belong to the middle class, a logical finding given that the program helps participants to purchase a new apartment – a move that requires capital and the ability to keep up with monthly mortgage payments. Nevertheless, interestingly, the program has an over-representation of the ultra-Orthodox, despite their being an economically weak group. The Arab population, which, like the ultra-Orthodox community, has a severe housing shortage and is relatively weak economically, is under-represented in the program.

Over the years that the program has been implemented, it has been claimed that it stimulates demand. The study findings show this to be correct. However, it seems that a large part of the demand is created among low-income population groups that prior to the program did not believe it possible to purchase an apartment. This begs the question whether members of the low-income public can meet future mortgage repayments. The developers and professionals involved in the program believe that given the involvement of the banks in the program, they do not expect defaults on the mortgages taken in order to purchase apartments through the program.

Our final finding from the study has to do with the discounts awarded through the program. These were given regressively – those who purchased an expensive apartment in a demand area received a large discount, both proportionately and in the amount, while those who purchased an inexpensive apartment in an area that is not in demand received a small discount both proportionately and in the amount. One reason for this is that developers were able to give larger discounts in areas of demand through cross-subsidization with apartments they had sold on the free market.

Recommendations

The following are our main recommendations for the Buyers Price Program and for similar future programs, according to the two parts of our study:

The Eligibles

- Hold the lotteries close to the time the building permits are issued to shorten the waiting time between winning the lottery and purchasing an apartment

- Improve the service of the inspection companies and maintain ongoing contact with the eligibles
- Provide apartments of varying sizes and increase the supply of four-room apartments in the projects
- Continue to combine BBP apartments and those sold on the free market in housing projects (diversity of sales methods)
- Limit the amount of the discounts in areas where there is demand and increase the grants in the periphery
- Market attractive tenders in Arab localities in coordination with the local authorities
- Develop additional policy instruments, in conditions suitable for the traditional Arab population.

The Developers

- Give the developers more latitude by differential pricing at the level of the building and the possibility of constructing and occupying the projects in stages
- Conduct surveys of the demand before the marketing of the land and state commitment to purchase apartments
- Improve coordination between the local authorities and other public authorities in order to shorten the waiting time for building permits to be issued
- Standardize appraisals for future tenders by comparing appraisals for actual deals with appraisals for tenders conducted previously in a random sample of occupied projects in a particular area.